

This record is a partial extract of the original cable. The full text of the original cable is not available.

C O N F I D E N T I A L SECTION 01 OF 03 SANAA 001976

SIPDIS

E.O. 12958: DECL: 07/23/2015

TAGS: [PGOV](#) [PREL](#) [PINR](#) [PHUM](#) [ECON](#) [EINV](#) [ENRG](#) [KMPI](#) [YM](#) [ECON](#) [COM](#) [ENERGY](#)

SUBJECT: REMOVAL OF FUEL SUBSIDIES SPARKS RAPID INFLATION, RIOTS

REF: A. SANAA 1959

[B](#). SANAA 1875

[C](#). SANAA 1877

Classified By: CDA Nabeel Khoury for reasons 1.4 b and d.

[1](#). (C) Summary. On July 23, Rioting and unrest had abated, following a weekend of explosive demonstrations against the lifting of fuel subsidies. On July 23, the ROYG confirmed 22 people killed, but the number is reportedly closer to 40. Demonstrators lashed out against the ruling elite across Yemen, angered by government corruption and the rising cost of living. A brief crisis involving a Hunt Oil facility in the Mareb region has been resolved. ROYG policy on lifting fuel subsidies is now at the center of political debate, with opposition parties accusing security forces of using harsh tactics against demonstrators and the press. Rumors regarding imminent Cabinet changes continue, while the ROYG attempts to justify the policy decision to Yemenis. International observers welcomed the removal of subsidies, a severe impediment to Yemen's economic development, but expressed disappointment at the ROYG's failure to prepare the public. There is additional concern that the additional revenue will not be used effectively to spur economic development and create jobs. End summary.

Calm Returns to Yemen

[2](#). (SBU) A sense of calm has returned to the streets of Sanaa after a weekend of riots and unrest. On July 20, angry demonstrators in Sanaa reacted to sharp price hikes caused by the ROYG's decision to lift the fuel subsidy, barricading most major streets, lighting tire fires, and converging on Government buildings (ref A). Similar demonstrations took place in Sa'ada, Mareb, Aden, Taiz, Hodeidah, as well as other parts of the country. The Government acknowledged the death of 22 people including six policemen, and 375 injuries including 255 security personnel, but other sources report higher casualty figures. Poor weather and military reinforcements helped bring the protests under control in Sanaa by July 22.

Hunt Facility is Free, Fuel Remains Hostage

[3](#). (C) Other parts of the country appear less secure. The GPC website, al-Muatamarnet, reported that on July 22, tribesmen from Mareb surrounded the Jana Hunt oil refinery and disrupted transport from the site (septel). The seige has ended, but the Mareb-Sanaa road remains blocked, preventing diesel and propane deliveries to Sanaa. Ralph Gonzales, head of Hunt security, confirmed that President Saleh would visit the region shortly to negotiate an end to the standoff with tribal sheikhs. If a solution is not reached, said Gonzales, Hunt will be forced at great expense to cease production, denying the capital of critical fuel supplies. There are reports of continued protests in Mareb, al-Jawf, and elsewhere, but for the time being they remain peaceful.

Class Warfare, Attacks on Press

[4](#). (C) The unrest in Sanaa appeared spontaneous and uncoordinated. Many of the rioters were reportedly young boys caught up in the anarchic spirit. Any symbol of wealth and influence served as a focus for demonstrations, regardless of party or tribal affiliation. Mobs attacked the Ministries of Oil and Finance, as well as the offices of Sabafon, owned by Yemen's premier sheikh, Abdullah al-Ahmar. Demonstrators ransacked the International Bank of Yemen, mistaking it for the World Bank. Angry protestors threw rocks at passing cars, assuming that anyone wealthy enough to afford gas was part of the corrupt elite responsible for their hardship. Yemenis on the street were both saddened by the riots and angry with the ROYG for its lack of compassion. "I can't believe how my people are destroying the country," said one Yemeni. He then qualified, "But you must understand why the people are so angry."

[5](#). (C) Several sources report a harsh crackdown on

journalists covering the unrest. An al-Jazeera TV team was reportedly assaulted by security forces, and two of its crew detained. The ROYG banned correspondents from satellite channels from covering the events, and transmission of all footage was also banned. There were other reported incidents concerning journalists from the independent al-Ayyam newspaper, the Nasserite weekly al-Wahdawi, the Yemen Times and al-Khaleej.

Heads Will Roll

16. (C) The price hike was a severe shock to all but the most wealthy Yemenis. The cost of diesel rose from 17 YR per liter (approximately nine US cents) to 45 YR (23 US cents); gasoline jumped from 35 YR (18 US cents) to 65 YR (34 US cents); and kerosene and butane, used for cooking, showed similar increases. Widespread price gouging by small-business owners made matters worse. Taxi fares costing 300 YR (1.50 USD) on Tuesday shot up to 2000 YR (10.36 USD) by Wednesday, far exceeding the average rise in fuel prices. Seeing an opportunity for quick profits, stores doubled and even tripled prices on nearly every consumer item. The ROYG and business leaders reached an agreement on July 19 in which both sides promised to take legal and disciplinary measures against those who sought to exploit the situation, but it had little effect. Coupled with an inflation rate hovering around fifteen percent and a highly unstable currency exchange, Wednesday's inflationary shock was simply too much for many Yemenis to bear (ref B).

17. (C) Political fallout from the decision has only just begun, but it is likely that the riots will mark an end to the careers of a number of prominent ministers. Much of the demonstrators' anger was directed at Prime Minister Bajammal and the London based Arab weekly al-Quds al-Arabi reports that he is planning to flee Yemen. The fate of Finance Minister Salami remains similarly in question (ref A). Opposition parties issued a joint statement denouncing the riots, but calling on the ROYG to rescind the "unjust measures" immediately. MP Hamid al-Ahmar, son of Sheikh Abdullah, also condemned the ROYG's decision to lift subsidies. Although calling for calm and condemning violent protestations, the opposition Islah party accused the ROYG of issuing "shoot to kill" orders to security forces, despite Government claims of restraint.

Long-Run Benefit to Yemenis

18. (SBU) The pressure to lift fuel subsidies dates back to a 1995 agreement with the IMF in which Yemen agreed to a package of economic reforms, including a reduction of subsidies, in return for financial assistance. According to the IMF, fuel subsidies cost the ROYG approximately six percent of GDP in 2004. The cost was projected to rise in 2005 to as much as 700 million USD as a result of rising world oil prices. In addition, the subsidies led to a rent economy that allowed military officers and others to benefit from smuggling fuel. Total annual loss to the economy may have been over a billion USD. In recent years, declining GDP growth, a growing budget deficit, and diminishing oil reserves have made the development of a secure revenue base more urgent (ref C).

19. (SBU) On July 19, the ROYG issued a list of benefits Yemenis will derive from the reduction of fuel subsidies. The Government promised to expand social insurance to 200,000 additional citizens, channel revenue to welfare projects at the Social Fund for Development and Public Works, and to construct a natural gas pipeline from Mareb to Aden and Hodeidah to upgrade power stations. The ROYG promised to protect existing subsidies for water, sanitation and electricity, as well as to protect domestic industries such as fishing and cotton production. The plan also included measures to reduce government expenditures on diplomatic representation and official travel.

10. (C) At the outbreak of the riots, ROYG reaction was generally terse and unapologetic. The Prime Minister blamed violence on conspirators, while Minister of Civil Service al-Sufi was quoted on al-Jazeera, saying the killing of protestors was "a natural reaction" by the security forces. In the days that followed, however, ROYG public statements became more conciliatory, seeking to explain the benefits of the move to the public. The revenue will, "lift six million people out of poverty," said al-Sufi. Minister of Agriculture Suwaid added, "The new price policy will dramatically reduce water consumption," by forcing Yemenis to conserve diesel-powered irrigation in agriculture.

Comment: Lack of Trust Between ROYG and Yemenis

11. (C) Lifting fuel subsidies was essential for long-term economic health. The World Bank and others have long advocated the gradual introduction of such changes to prevent sudden inflationary shock and civil unrest. After delaying action for several years, the ROYG finally bit the bullet, but there appears to have been almost no strategic plan for implementation. By announcing a dramatic lift in fuel subsidies at 9:00 pm to go into effect at midnight, the ROYG sparked an inflationary panic that caused hysteria throughout the country. In the months leading up to the decision, the ROYG took no ownership of the reform package, repeatedly shifting responsibility to Parliament and denying that any price hikes were planned. The Cabinet did nothing to prepare Yemenis for the changes, nor did it explain the future benefits of increased revenue. Few Yemenis understand the link between these programs and fuel subsidies, and those that do have little faith that the ROYG will deliver. The ROYG's policy explanations that followed the riots were too little too late, and their first explanation - adjustments to world oil prices - was not credible. Corruption and mismanagement have severely undermined the Government's credibility, and many Yemenis believe that officials will simply pocket the new revenue. For the moment, Yemenis seem unwilling to make sacrifices for a government they do not trust. End comment.
Khoury